Mr Borden

CANADIAN OIL COMPANIES LIMITED

submission to

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WHITE
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CANADIAN OIL COMPANIES, LIMITED

a full integrated oil company, 93% owned by Canadian citizens resident in Canada with no affiliation with any other oil company, either domestic or foreign. It is Canada's largest integrated oil company.

HISTORY OF THE COMPANY

At the turn of the century the inflow of American crude oil and petroleum products was making serious inroads into the markets of the Southern Ontario crude oil producer. So much so, that a group of Ontario industrialists and crude oil producers joined forces to form an independent Canadian oil company. It was organized under the name of Canadian Oil Refinery Company and, in a few months' time, opened a new oil refinery at Petrolia in 1901. In 1908, this Company experienced financial difficulties. Out of the re-organization a new Company bearing the name "Canadian Oil Companies, Limited" was incorporated under the Ontario Companies Act, with control of the Company held by the National Refining Company of Cleveland, Ohio. This condition obtained until the Fall of 1938, when control of the Company was purchased and returned to Canada, where it has since remained.

FUNCTIONS

For many years Canadian Oil Companies, Limited, was primarily a marketing organization and although it operated the Petrolia refinery this plant supplied only about 10% of its sales volume. The Company now has 3,000 retail outlets serving all Provinces of Canada except British Columbia and Newfoundland.

Following the major oil discovery at Leduc in 1947 and the subsequent decision to build a pipe line to move Alberta oil to the Great Lakes area, Canadian Oil Companies, Limited,

decided to build a modern refinery at Sarnia. It thus became the first refinery in Eastern Canada specially designed, engineered and built to refine Canadian crude oil from Alberta. To date, $35 million has been invested in this plant, which, currently processes 30,000 barrels daily or 10 million barrels per annum. Work has already commenced on an expansion programme which will increase its capacity to 50,000 barrels daily in 1959.

From this plant, the Company supplies feed stocks to the Government-owned Polymer Plant and the Dow Chemical Company and in 1957 brought on stream new units to manufacture Petrochemical base stocks, i.e., Benzene, Xylene and Toluene. The Company's refinery runs Canadian crude oil exclusively.

The next step in the Company's integration was its entry into the producing field which was brought about by the acquisition in 1955 of the assets and undertakings of the Anglo-Canadian Oil Company Limited, a pioneer exploration and producing company for over 17 years. Since its entry into production, the Company has increased the 12 million barrels of oil reserves acquired from Anglo to 33 million and its unexplored land position from 400,000 to 844,000 net acres. To date, $30 millions have been spent to acquire, find and develop crude oil production in Western Canada.

The Company participated in providing part of the equity capital for the building of the Interprovincial Pipe Line.

It also has an interest in the Trans Mountain Pipe Line Company.

Canadian Oil Companies, Limited, as an independent producer, refiner, and marketer, is therefore dependent on the production of Canadian crude oil, and the manufacture and sale of the products therefrom, for its existence. Accordingly, we are directly and vitally influenced by policies in effect in Canada and feel constrained to set forth our views on certain subjects included under the "terms of reference" of your Commission.

MARKETING OF CANADIAN CRUDE OIL

As a producer of crude oil in Western Canada where we have a substantial investment, we are interested in selling the maximum amount possible and at the highest well head price obtainable.

Canada's large and rapidly expanding crude oil production has recently received a set-back, in that the United States has temporarily, we hope, placed a limit on the import of Canadian crude oil into the North-Western United States which is, and should be, a normal market for a large portion of our production.

Immediately such a situation as this arises, there are those who would advocate the establishment of alternate markets even though they may be artificial, and less economic.

MONTREAL MARKET

The alternate market which is being advocated is Montreal. There is established in that city a very large refining centre, so established many years ago when Canadian crude was not available and ocean-borne crudes had to be imported to supply Canadian product demands. Large sums of money were expended by the companies concerned to establish this refinery capacity here on tide-water. Products from this refinery centre were moved into Ontario by railway, highway transport, and by tankers up the St. Lawrence. Later a products pipe line was built from

Montreal to Toronto in order that the Ontario demand would be adequately supplied. In fact, products refined in Montreal found their way as far West as Fort William.

It is now proposed that a pipe line be built from Western Canada to Montreal at a cost of upwards of $250,000,000. If this were done the same conditions will prevail except that the crude is moved Eastward to Montreal and about one-third of the products refined therefrom will be back-hauled into Ontario. This, we think you will agree, is not the most economical move, nor is it fair to require the refiners in the Montreal area to enter into long-term commitments for the purchase of Canadian crudes, which commitment would be necessary, before any crude line to Montreal could even be considered.

It is further proposed that in order for Canadian crude to be competitive at Montreal, there would need to be a reduction in well head prices, lowering of pipe line tariffs and the possible imposition of import controls. Let us examine these.

1. Lower Well Head Prices

Canadian crude oil by reason of its distance from adequate markets, already suffers severely in well head prices compared with competitive crudes. For example, Illinois crude is approximately $3.00 per barrel, close to a large market, versus Redwater crude at $2.63. A 10¢ per barrel reduction has

has been proposed in Canadian crude to make it competitive at Montreal. Assuming this were done, what happens if Middle East or South American crude producers drop their prices to retain this market? The inevitable result could be the lowering of well head prices of Canadian crude oil to the point where the development of a basic normal resource becomes unattractive. In the long run, Canadian Oil Companies, Limited, as a producer, would prefer to face a restricted production for two, three, or even four years in the prospect of sustaining higher well head prices.

2. Lower Pipe Line Tariffs

The advocates of a pipe line to Montreal contend that a low through rate is possible by reason of large volume and telescoping tariffs. That is, the refiners on the short haul would pay a much higher price ber barrel mile so that the refiners at the end of the line could get a lower rate per barrel mile.

A recent proposal recommends increasing the rate from Edmonton to Sarnia so as to provide a lower per barrel mile tariff to Montreal. We understand the proposed differential between Edmonton to Sarnia versus Edmonton to Montreal to be just 1¢ per barrel. In other words, the differential from Sarnia to Montreal, 500 miles, would be 1¢. Assuming a 3.8¢ tariff per 100 barrel miles, the differential should be about 19¢. Canadian Oil Companies, Limited would object most strenuously to any

such proposal.

The location of our new refinery at Sarnia was decided after an exhaustive study by a large qualified engineering concern which specializes in studies of that kind. The Sarnia location was chosen because it was at the lower end of Lake Huron right at the gateway to Canada's largest consuming area of petroleum (Ontario) - also, because it was on the direct pathway between the oil fields of the West and the rich Ontario market. Assuming the Toronto area to be the centre of gravity of the Eastern market, it seems unjust for a refiner in the Sarnia area to pay a higher pipe line rate for his crude oil so that it can be moved another 330 miles beyond the centre of gravity (Toronto) market which both the Sarnia and Montreal refiners are competing for.

3. Import Controls

To help Alberta crude into the Montreal market, it is suggested a duty be imposed on foreign crude. Presumably, this duty applies on crude oil reaching Halifax as well - a market which is beyond the reach of Western crude. Residents of our Atlantic Provinces would soon be heard from when higher prices were charged for petroleum products as a result of a duty on crude oil, a duty designed to help the Western Canada crude oil producer.

Today we are witnessing the rising temperature of

public opinion as a result of quota limitation on Canadian crude oil reaching the United States. It is not difficult to imagine the outcry from Venezuela and other South American countries on the entire loss of their crude oil sales to Canada. In the event of reprisals, what is Canada likely to lose in sales of wheat, etc?

4. Commitment by Montreal Refiners

It seems unfair to require the Montreal refiners to make a long term commitment for Western crude oil and thereby bar them from opportunities which from time to time could be more economic. Certain refinery contruction in Montreal has been designed and engineered to process a certain type of foreign crude oil. A compulsion to use domestic crude oil would therefore work a hardship on refiners who had investments in special equipment which would now be unnecessary.

5. Commitment by Crude Oil Producers of Western Canada

To justify a pipe line to Montreal the producers in Western Canada would have to be prepared to give a long term commitment to supply. Assuming 250,000 barrels daily for twenty-five years, the total commitment would exceed one-half of the currently reported oil reserves of 3.5 billion barrels. Are the producers prepared to make such a commitment to supply the

crude oil regardless of whether or not closer and more attract- markets develop?

In the long term view our crude oil will certainly find its way into natural markets in the Puget Sound and North-Western and upper-mid-continent area of the United States. When that condition occurs, we do not want to be saddled with a $250 million pipe line and a long term commitment to supply 200 - 250 thousand barrels daily of our crude oil to a market which could only be substantiated by artificial means.

Canada has an adverse trade balance with the United States. In 1957 this amounted to approximately $1.5 billion and there is constant pressure to correct this situation. One logical method of so doing is the export of our surplus petroleum into the North-Western and upper mid-continent areas of the United States.

We should not, however, sit idly by without exploring further possible means of expanding our markets for Canadian crude.

ALTERNATIVES TO MONTREAL MARKET

As an alternative to building a line to Montreal, let us consider that from here on we supply the increase in Canada's demands from Western crude. This could be brought about by supplying more and more of the Ontario market from Ontario refining capacity. Also, all refiners in Canada operating within the orbit of Canadian crude supply should use it. This could have the effect of moving the orbit of Canadian crude steadily eastward. In time most, if not all, of the Ontario market can be supplied by Canadian crude.

Broader export and domestic markets for Canadian crude can be brought about by these steps: -

(a) The Canadian Government to continue to press United States authorities to exempt Canadian crude oil moved by pipe line into the United States from any import quota limitation. This would help to balance our large trade deficit with the United States.

(b) Canadian refineries operated in the areas where Canadian crude is available at competive prices should discontinue importing United States crude oil.

(c) Until outlets for Western Canada crude oil open up in the Western and upper mid-continent areas of the United States, let us try to preserve the increase in demand of Canadian petroleum products for the Western crude oil producers. This can be gradually brought about by locating new oil refineries in the orbit of Canadian crude supply. Our own company is increasing its Sarnia refinery capacity, which will be an added outlet for Canadian crude oil.

(d) As and when additional refining capacity is

established in Eastern Canada sufficient to meet all of our petroleum needs, it is to be hoped the present importers of products will seek their supplies from Canadian sources.

The largest marketing area for petroleum products is in the Province of Ontario and this market should be supplied from Canadian crude oil. The above suggestions should work to that end.

These would not cause material hardship for present refiners who have made substantial investments in capital equipment, but would tend to encourage the establishment of new refineries in areas where Canadian crude oil is now available.

The foregoing proposals, if carried out, could go a long way toward providing a larger domestic market for Canadian crude oil. The enterprise of our industry, in slightly more than 10 years, has brought Canada from a nation having less than 10% of its oil needs to one of self-sufficiency. And now as we face the problem of abundance, let us hope that industry statesmanship will again prevail in the interests of our country.

EXPORT OF NATURAL GAS

While Canadian Oil Companies, Limited is not a large producer of natural gas, having reserves of about 1/10 of a Trillion cubic feet and approximately One-half Million dollars tied up in capped gas wells on which as yet we have not received any income, nevertheless, we feel that we have a definite interest in the question of the export of this product.

It is submitted that the first consideration must always be the satisfaction of the needs of the Canadian consumer and that the export of natural gas must be subservient to these needs. The export of gas, however, can have a definite bearing on the cost to the Canadian consumer in that any surplus over and above Canadian requirements, if exported at a reasonable margin of profit, will affect not only the price to be paid by the consumer but will stimulate the exploration and development of future gas reserves. Although we have not made separate calculations of our own, we have carefully reviewed the basis on which other estimates on future recoverable reserves are calculated and we believe that ultimate reserves of gas will prove to be in the neighbourhood of 300 Trillion cubic feet as estimated by the Canadian Petroleum Association. We are, therefore, of the opinion that the export policy, both of the Provinces and of the National Government should take into account such projected future reserves of gas when considering future requirements in Canada, and if in so doing there is a surplus over and above the

foreseeable Canadian requirements, then export licenses should be promptly granted. It is further submitted that in determining any exportable surplus, the future rate of finding should not be ignored. There is available a large amount of data pertaining to this and it is not our intention, nor is Canadian Oil Companies, Limited qualified to deny or confirm any of this data. We can, however, urge that in arriving at a formula upon which to base the exportable surplus, the rate of finding should not be overlooked. As more and more geological information is obtained the forecasting of possible reserves will become more and more accurate.

It has been widely stated that the effects of an export policy based on the above could result in higher prices than those currently paid in the Province of Alberta. While this might well prove to be the case, at the same time there is no assurance that if export permits are not granted the prices to the consumers of Alberta, as a whole, will not rise and possibly rise to higher levels than in the event of export and the many benefits to the Province and its people arising out of a strong and healthy gas industry will be lost. Whether we like it or not, except under artificial restraints and in isolated instances the price in the world markets, less transportation factors involved, sets the prices in any given area whether it be gas,

oil, wheat or any other world commodity. Therefore, when the question of consumer price is raised, as a matter of political expediency, the merits of the arguments presented should be judged on its cold economic facts and not in the hot blast of politics.

Certain facts heretofore brought out by this Commission have tended to indicate that the United States consumer may have benefited at the expense of his Canadian counterpart. Again this is a matter of opinion, and it may well be that the Canadian consumer would not have had the benefits of natural gas by any other means. The many producers operating in western Canada who initially contracted their gas to Trans Canada did so knowing full well that the contract terms received were inadequate, but did so as a contribution to get the project under way, knowing that in the long run they would be more than recompensed for their initial sacrifice by the development of a strong and healthy gas industry in Western Canada. Contracts heretofore executed by both producers and consumers may appear, from the short term view, to be disadvantageous but may well prove to be the reverse over a long term period. If we accept the premise that future reserves of natural gas in western Canada are on the order of 300 Trillion cubic feet, the reserves currently under contract represent only a negligible portion and as subsequent contracts are entered into there is

little question that many of the apparent inequities currently existing will rapidly be corrected and all western Canada will benefit to a far greater extent because of their close proximity to this vast supply of reserves. We are of the opinion that armed with the facts that have been developed by this Commission, regulatory bodies such as the Oil and Gas Conservation Board or the Board of Transport Commissioners, in granting subsequent permits for the transmission and export of natural gas, will examine more closely the contractual basis on which natural gas will be purchased and sold for herein lies the great differences between the transportation of oil and natural gas. Transportation of oil is generally handled on a strictly common carrier basis, the pipe line company involved having no direct interest in the commodity transported but simply an interest in the transportation revenue which can quite easily be related to the investment in the transportation facilities and a reasonable return on investment determined. Our existing regulatory bodies have had little difficulty in the past in this respect and in our opinion are quite adequate to handle the future regulations of such oil pipe lines. On the other hand gas transmission lines rarely handle natural gas which they do not own. They are owner shippers, as opposed to true common carriers and as a result it becomes necessary to look, among other things, at both both the profits from the pure transmission of natural gas as

opposed to the profits arising out of the purchase and sale of the natural gas so transmitted, in order to determine whether or not such gas transmission lines are being operated in the best interests of the Nation as a whole. We see no reason why our existing regulatory bodies, as presently constituted, cannot function adequately in this respect. Certainly they have the benefit of considerable related experience and should be in a far better position to do so than a newly constituted Board would be.

NATIONAL ENERGY BOARD

Insofar as the establishment of a National Energy Board is concerned it is our hope that the Terms of Reference are not to be interpreted that there is a basic assumption that such an authority shall be established.

The oil industry is well aware of its responsibilities and obligations under a free enterprise system and it is because of this system and the tremendous investment made by private interests thereunder that the discovery and development of our natural resources has taken place.

The oil industry being a dynamic and research minded industry should not be hampered by any governing or regulatory authority beyond those normally placed on business. It is the responsibility of the Parliament of Canada to establish a policy with regard to national energy but the Government should not interfere unnecessarily. Rather, present legislation, both Provincial and Federal, should be constantly reviewed and amended to conform to changing conditions.

Any regulatory body tends, over a period of time, to broaden its authority and to restrict those operating under its authority.

During the war the Government established the Office of the Oil Controller - in its initial stages this control was chiefly concerned with the rationing of gasoline to the public. It was not long, however, before it was quite apparent that

gasoline rationing was impossible without other forms of control and before the end of the war, Oil Control had regulations effecting every phase of the petroleum industry.

It is to be hoped that rather than establishing a regulatory body that Government will refer any problems which may arise to the industry which will, we submit, face the challenge and solve it under existing regulations.

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